

## Chapter: Three

### Retirement of Partners-

#### Introduction-परिचय

एक साझेदार अपनी Retirement-सेवानिवृत्ति या Death-मृत्यु पर एक साझेदार नहीं रहता है और इस तरह, सेवानिवृत्त या मृतक साझेदार के दावे की राशि को फर्म द्वारा तय किया जाना होता है। फर्म से साझेदार के सेवानिवृत्त के समय निम्नलिखित समस्याएं आती हैं! The following problems arise on retirement or death of a partner.

- (1) Determination of New profit sharing ratio- नए लाभ या हानि के अनुपात का पता लगाना,
- (2) Determining Gaining Ratio-अधिग्रहण अनुपात का पता लगाना,
- (3) Treatment of Goodwill- ख्याति का उपचार,
- (4) Adjustment for Assets and liabilities on Revaluation-संपत्तियों और देनदारियों के पुनर्मूल्यांकन के लिए समायोजन,
- (5) Adjustment for unrecorded assets and liabilities-अलिखित संपत्तियों और देनदारियों के लिए समायोजन-
- (6) Adjustment for Accumulated profit and loss and-संचित लाभ / हानि के संबंध में समायोजन,
- (7) Method of payment to the retiring partner-सेवानिवृत्त या मृतक साझेदार को भुगतान के तरीके

सेवानिवृत्ति (Retirement) या मृत्यु (Death) की तारीख पर सेवानिवृत्त (Retired) या मृतक (Deceased) साझेदार का दावा उसकी पूंजी, ख्याति, संचित लाभ या हानि, उसकी ड्राइंग, वर्तमान लाभ या हानि में हिस्सेदारी, और पुनर्मूल्यांकन लाभ या हानि में हिस्सेदारी के आधार पर निर्धारित किया जाता है।

एक साझेदार के प्रवेश के विपरीत, हमें एक साथी के सेवानिवृत्ति या मृत्यु पर शेष के लाभ अधिग्रहण अनुपात की गणना करना पड़ता है क्योंकि सेवानिवृत्त या मृतक साथी के लाभ का हिस्सा शेष साझेदारों द्वारा ले लिया जाता है। उपरोक्त समस्या में से प्रत्येक पर निम्नलिखित अनुभाग में चर्चा की गई है।

#### 2.1 Determination of New profit sharing ratio- नए लाभ या हानि के अनुपात का पता लगाना

नए लाभ या हानि के बंटवारे के अनुपात की गणना सेवानिवृत्ति या मृत्यु के मामले में की जानी चाहिए, क्योंकि शेष साझेदार अपने लाभ के लिए सेवानिवृत्त या मृतक साझेदार के हिस्से का कुछ हिस्सा हासिल करते हैं। प्रत्येक शेष साथी का नया लाभ या हानि साझा करने का अनुपात फर्म में लाभ के अपने पुराने हिस्से और सेवानिवृत्त या मृतक साझेदार के लाभ के हिस्से का कुल योग बराबर होता है जो उसने अर्जित किया जाता है। इसे निम्नानुसार समीकरण के रूप में व्यक्त किया जा सकता है।

New Profit sharing Ratio = Old share + Acquired share

नया लाभ साझाकरण अनुपात = पुराना हिस्सा + अर्जित हिस्सा

**Example 1.** A, B and C are partners in a firm sharing profits in the ratio of  $1/2$ ,  $1/3$  and  $1/6$  respectively. B retires from business. Calculate the new profit sharing ratio of A and C.

A, B और C क्रमशः  $1/2$ ,  $1/3$  और  $1/6$  के अनुपात में एक फर्म के मुनाफे में साझेदार हैं। B व्यवसाय से सेवानिवृत्त होता है। A और C के नए लाभ साझाकरण अनुपात की गणना करें।

**Solution.**

Partners old ratio is  $1/2 : 1/3 : 1/6$  OR  $3/6 : 2/6 : 1/6$

Now B's share can be deleted and the new profit-sharing ratio of the remaining partners A and C will be  $3/6 : 1/6$ . So, New Profit sharing Ratio of A and C is 3:1 or  $3/4 : 1/4$ .

**Note:**

It is easy to understand that here A and C have acquired B's share in the same proportion in which they were sharing profits i.e. in the ratio of 3:1 which can be verified by deducting the old ratio from the new one as under.

यह समझना आसान है कि यहां A और C ने उसी अनुपात में B का हिस्सा हासिल किया है, जिसमें वे लाभ साझा कर रहे थे यानी 3:1 के अनुपात में, जिसे नए अनुपात से पुराने अनुपात में से घटाकर करके सत्यापित किया जा सकता है

(A's Acquisition) A का अधिग्रहण =  $3/4 - 1/2 = 3/4 - 2/4 = 1/4$

(B's Acquisition) B का अधिग्रहण =  $1/4 - 1/6 = 3/12 - 2/12 = 1/12$

अतः A और C का अधिग्रहण अनुपात =  $1/4 : 1/12 = 4/12 : 1/12 = 4:1$

**Example 2.**

A, B, and C are partners sharing profits in the ratio of  $1/2$ ,  $1/3$  and  $1/6$  respectively. B retires from business. A and C agree to acquire the retiring partner's share of profit in equal ratio. Calculate the new profit-sharing ratio of A and C.

**Solution.**

Partner A and C acquired one half of the B's share of profit which is,  $1/2 \times 1/3 = 1/6$

So, the new profit-sharing ratio of A and C will be:

A = Old share + acquired share =  $1/2 + 1/6 = 4/6$  or  $2/3$

C = Old share + acquired share =  $1/6 + 1/6 = 2/6$  or  $1/3$

Hence, new profit-sharing ratio of A and C will be **2:1**.

## 2.2 प्राप्तानुपात-Gaining Ratio

जिस तरह हम एक नए साथी के प्रवेश के मामले में त्याग के अनुपात की गणना करते हैं, वैसे ही हमें साथी की सेवानिवृत्ति या मृत्यु के समय लाभ अनुपात की गणना करनी होगी।

प्राप्त अनुपात प्रत्येक शेष साथी के लाभ अनुपात की गणना लाभ के पुराने हिस्से को लाभ के नए हिस्से से हटाकर की जाती है। यह हमेशा सेवानिवृत्त या मृत साथी के लाभ के हिस्से का हिस्सा होता है जिसे हासिल कर लिया गया है।

यदि केवल साथी की सेवानिवृत्ति या मृत्यु, प्रश्न में बताई गई है, लेकिन नए लाभ के बंटवारे के अनुपात या उस अनुपात में कुछ भी नहीं दिया गया है जिसमें शेष साझेदारों ने बाहर जाने वाला साथी के हिस्से का अधिकार प्राप्त किया है। शेष भागीदारों का नया लाभ साझाकरण अनुपात पुराना अनुपात होगा और लाभ अनुपात भी उसी अनुपात में होगा। यह पहले से ही उदाहरण 1 में समझाया गया है।

लेकिन शेष साझेदारों के नए लाभ के बंटवारे के अनुपात को दिए जाने की स्थिति में, प्राप्ति अनुपात, नए अनुपात से पुराने अनुपात में घटाकर करके गणना की जानी चाहिए।

Example 3.

A, B and C are partners sharing profits in the ratio of 4/10, 3/10, 3/10 respectively. C retires from the business. A and B decide to share future profits equally. Calculate the gaining ratio of A and B.

Solution.

Gaining Ratio of A = New Ratio - Old Ratio

$$= 1/2 - 4/10 = 1/10$$

Gaining Ratio of B = New Ratio - Old Ratio

$$= 1/2 - 3/10 = 2/10$$

Hence, gaining ratio of A and B is 1/10 : 2/10 or 1 : 2.

### Exercise- Test Your Knowledge:

1) X, Y and Z are partners in a firm sharing profits in the ratio of 3:2:1, respectively. X retires from business. The remaining partners B and C decide to share profits equally in future. Calculate gaining ratio.

2) P, Q, R and S are partners sharing profits in the ratio of 7:6:4:3-respectively. S retires from business and the remaining partners A, B and C decide to share future profits equally. Calculate gaining ratio.

3) A, B and C are partners sharing profits and losses in the ratio of 5:3:2. B retires. His share has been taken by A and C in the ratio of 2:1. Calculate new profit-sharing ratio.

## 9.3 Treatment of Goodwill- ख्याति का उपचार,

जब एक साथी रिटायर होता है या मर जाता है तो वह फर्म में के ख्याति के अपने हिस्से का हकदार होता है। फर्म की ख्याति में सेवानिवृत्त -Retiring या मृतक-Deceased हिस्से का पता लगाने के लिए, हमें पहले Goodwill के वर्तमान मूल्य का पता लगाना होगा। फिर, इसके आधार पर, सेवानिवृत्त या मृतक साथी के लिए Goodwill में हिस्सेदारी की गणना की जाती है। हालाँकि, लेखांकन उपचार इस बात पर निर्भर करेगा कि क्या Goodwill पहले से ही Balance Sheet में मौजूद है या नहीं। इस प्रकार, दो संभावनाएँ हैं।

1. When there is no goodwill appears the in books (Balance Sheet). जब Goodwill Balance sheet में नहीं हो ।
2. When there is goodwill in books (Balance Sheet). जब गुडविल बुक्स balance sheet में मौजूद हो।

#### **A. When there is no goodwill appearing in the books.**

जब goodwill खाते की पुस्तकों में बिल्कुल भी प्रकट नहीं होती है, तो ख्याति के हिस्से के लिए रिटायरिंग पार्टनर या Deceased पार्टनर को आवश्यक श्रेय या हिस्सा देने के विभिन्न तरीके हैं। इनकी चर्चा नीचे दी गई है:

- (i) यदि Goodwill को इसके पूरे मूल्य से बैलेंस शीट में प्रस्तुत किया जाए- **Goodwill is raised with full value and shown in books.**

ऐसी स्थिति में साझेदार यह तय कर सकते हैं कि goodwill को इसके पूरे मूल्य के साथ प्रस्तुत जाए और इसे खाते की पुस्तकों में बनाए रखा जाए। इस स्थिति में, Goodwill खाते को पूरे मूल्य के साथ डेबिट किया जाता है और सभी भागीदार के पूंजीगत खातों को क्रेडिट किया जाता है। The Journal Entry is-

**Goodwill Account-Dr.**

**To Partners' Capital A/c**

Being Goodwill raised account raised in in old ratio

- (ii) जब Goodwill को इसके पूरे मूल्य से बैलेंस शीट में प्रस्तुत किया जाए और इसे तुरंत खत्म कर दिया जाए-**Goodwill is raised with full value and then immediately written off.**  
Retired या deceased साथी को उचित श्रेय देने के लिए goodwill account बढ़ाने के बाद, भागीदार इसे तुरंत लिखने का फैसला कर सकते हैं। उस स्थिति में, हम goodwill account (i) के जैसे बढ़ाएंगे और फिर शेष साझेदारों के पूंजी खाते को उनके नए लाभ के बंटवारे के अनुपात में डेबिट करके लिखेंगे और goodwill को पूरे मूल्य के साथ क्रेडिट किया जाएगा। The Journal Entry is-

- (a) **Partners' Capital Account- Dr.**

**To Goodwill A/c**

(Goodwill raised written of in remaining partners in new ratio)

- b) **All Partners' Capital Account- Dr.**

**To Goodwill A/c**

(Goodwill raised written of in remaining partners in new ratio)

- (iii) यदि Goodwill केवल अनुपातिक राशि के साथ बढ़ाया जाए जो सेवानिवृत्त या मृतकसाथी को देय है और इसे तुरंत शेष भागीदारों द्वारा उनके लाभ अनुपात में खत्म कर दिया जाए।

When goodwill is raised only with the proportionate amount payable to the retiring partner or deceased partner and immediately written off by the remaining partners in their gaining ratio.

ऐसी स्थिति में, Goodwill A/c को डेबिट किया जाता है और सेवानिवृत्त या मृतक भागीदार के पूंजी खाते को Goodwill की अनुपातिक राशि का श्रेय दिया जाता है। इसके बाद शेष भागीदार के खाते को उनके लाभ अनुपात में डेबिट किया जाता है और Goodwill खाते को Credit किया जाता है। For this, the Journal Entry is-

**a) Goodwill Account-Dr.**

**To Retiring or Deceased Partner Capital A/c**

(Being Goodwill raised account raised with proportionate amount only).

**b) Gaining Partners' Capital, A/c Dr.**

**To Goodwill A/c**

(being goodwill a/c written of in remaining partners in gaining ratio)

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iv) If no goodwill is raised in the books of the firm- यदि फर्म की खाते में कोई Goodwill नहीं बढ़ाया जाए-

जब भागीदार फर्म के खाते में goodwill को नहीं बढ़ाने और अपने पूंजी खातों के माध्यम से सीधे समायोजित करने का निर्णय करते हैं, तो सेवानिवृत्त या मृतक भागीदार के पूंजी खाते के देय राशि को Goodwill के हिस्से के Credit किया जाता है। For this, the Journal Entry is-

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**Gaining Partners' Capital A/c**

**To Retiring or Deceased Partner Capital A/c**

(being outgoing partner' goodwill adjusted through gaining partners' capital a/c)

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**B) When there is goodwill in the Balance Sheet-**

**जब Balance Sheet में Goodwill उपस्थित हो।**

यह संभव है कि Goodwill पहले से ही बैलेंस शीट में दिया हो। उस स्थिति में, साथी की सेवानिवृत्ति या मृत्यु पर goodwill के संबंध में समायोजन goodwill के present value और goodwill के book value के बीच अंतर तक सीमित होता है। ऐसी स्थिति में, खाते में goodwill का उपचार तुलनात्मक मूल्य पर निर्भर करता है। ऐसी स्थिति में, तीन संभावनाएँ हो सकती हैं।

i) यदि Goodwill का Book Value वर्तमान मूल्य-Present Value से कम है;

ii) यदि Goodwill का Book Value वर्तमान मूल्य-Present Value से अधिक है; और

iii) यदि Goodwill का Book Value और Present Value समान रहता है।

**i) यदि Goodwill का Book Value वर्तमान मूल्य-Present Value से कम है;**

ऐसी स्थिति में, Goodwill को book value के वर्तमान मूल्य की अधिक राशि से Goodwill खाते को डेबिट करके वर्तमान मूल्य पर उठाया जाएगा और साझेदारों के पुराने लाभ साझाकरण अनुपात में सभी भागीदारों के पूँजी खाते को Credit किया जाता है। For this, the Journal Entry is-

**Goodwill A/c Dr.**

**To All Partners' Capital A/c**

(Being goodwill raised to its present value or excess of present value over book value)

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**Example 4**

A, B and C are partners, sharing profits and losses in the ratio of 2:1:1. The goodwill is appearing in the balance sheet at Rs. 20,000. C retires and on that date the goodwill is valued at Rs. 30,000. Pass necessary journal entry.

**Solution.** The present value on c's retirement is Rs.30,000 and book value is only Rs.20,000. The excess of present value over the book value is only Rs10,000. The Journal entry is-

Goodwill A/c Dr. Rs. 10,000

To A's Capital A/c.....5,000

To B's Capital A/c.....2,500

To C's Capital A/c.....2,500

(being goodwill account raised from 20,000 to 30,000)

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**ii) यदि Goodwill का Book Value वर्तमान मूल्य-Present Value से अधिक है**

इस स्थिति में, Book Value और Present Value के बीच के अंतर को Goodwill a/c में Credit किया जाएगा और सभी भागीदारों के पूँजी खातों में उनके पुराने लाभ साझाकरण अनुपात में डेबिट किया जाएगा।

For this, the Journal Entry is-

**To All Partners' Capital A/c Dr.**

**Goodwill A/c**

(Being decrease in the value of goodwill from the book value to present value)

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**Example 5.**

A, B and C are partners, sharing profits and losses in the ratio of 2:1:1. The goodwill is appearing in the balance sheet at Rs. 36,000. C retires and on that date the goodwill is valued at Rs. 30,000. Pass necessary journal entry.

**Solution.**

The present value on c's retirement is Rs.30,000 and book value is only Rs.20,000. The excess book value over the present value is Rs. 6,000. The Journal entry is-

A's Capital A/c Dr. ....3,000  
 B's Capital A/c Dr.....1,500  
 C's Capital A/c Dr.....1,500  
     To Goodwill A/c ----- Rs. 6,000  
 (being decrease in goodwill account adjusted 36,000 to 30,000)

**iii) यदि Goodwill का Book Value और Present Value समान रहता है।**

यदि Book Value और Present Value के बीच कोई अंतर नहीं है, तो Goodwill के संबंध में कोई समायोजन प्रविष्टि करने की आवश्यकता नहीं होती है।

आप देखेंगे कि सभी स्थितियों में Goodwill को इसके वर्तमान मूल्य पर बैलेंस शीट में दिखाया गया है। अगर, इसके बावजूद, भागीदारों द्वारा Goodwill को पूरी तरह या आंशिक रूप से खतम करने का निर्णय लिया जाता है, तो शेष भागीदारों के पूंजी खातों को नए अनुपात में डेबिट किया जाएगा और Goodwill खाते को संबंधित मूल्य के साथ जमा Credit किया जाएगा।

**4) Adjustment for revaluation of assets and re-assessment of liabilities on retirement or death:**

As on the date of retirement or death of a partner, all assets and liabilities of the firm have to be revalued and any profit or loss arising from revaluation is adjusted in all the partners' capital accounts including the retiring or deceased partner in their old profit-sharing ratio.

For the purpose of revaluation of, assets and liabilities a Revaluation Account is opened and all appreciations(increase) and depreciations (decrease) in the values of assets and liabilities should be recorded in this account.

Similarly, if there is an increase in the value of an asset, such asset should be debited and Revaluation Account is credited with the amount of appreciation. Conversely, if there is a decrease in the value of asset, Revaluation Account is debited and the related assets account is credited.

**(i) The Journal Entry to record increase in the value of assets is-**

Assets A/c Dr.  
     To Revaluation A/c  
 (Being increase in the value of assets is recorded)

**(ii) The Journal Entry to record decrease in the value of assets is-**

Revaluation A/c Dr.  
     To Assets A/c  
 (Being decrease in the value of assets is recorded)

Similarly, if there is an increase in the amount of a Liability, Revaluation Account is debited and the concerned liability account is credited. And conversely, if there is a decrease in the amount of liability, the related liability account is debited and Revaluation Account is credited.

**(iii) The Journal Entry to record increase in the value of liabilities is-**

Revaluation A/c Dr.

To Liability A/c

(Being increase in concerned liability is recorded)

**(iv) The Journal Entry to record decrease in the value of liabilities is-**

Liability A/c Dr.

To Revaluation A/c

(Being decrease in concerned liability is recorded)

If partners desire to make a provision for some probable losses in future, such as Provision for Doubtful Debts or contingent liability is credited and Revaluation Account is debited.

**(v) The Journal Entry to record increase in the value of provision is-**

Revaluation A/c Dr.

To Probable Provision/c

(Being increase in concerned provision is recorded)

**5) The adjustment with respect to Adjustment for Unrecorded Assets and Liabilities:**

There may be some unrecorded assets or liabilities at the time of retirement or death. Such unrecorded assets and liabilities must be recorded into books of accounts through the Revaluation Account.

If there is an unrecorded asset at the time of retirement or death, such asset is Debited and the Revaluation Account is credited. Due to such recording all the partners of the firm get benefits as their capital accounts is credited through Revaluation Account.

**(vi) The Journal entry to record unrecorded assets is-**

Unrecorded Assets A/c Dr

To Revaluation A/c

(Being unrecorded assets recorded in the books)



Similarly, if there is an Unrecorded Liability, Revaluation Account is debited and the mentioned liability account is credited. Due to this, the capital accounts of all the partners gets debited through the Revaluation Account. The asset or liability so recoded into books of accounts are shown in the Balance Sheet.

**(vii) The Journal entry to record unrecorded liabilities is-**

Revaluation A/c Dr  
    To Unrecorded Liability A/c  
(Being unrecorded liability recorded)

The Net Gain or Loss on Revaluation is divided or shared amongst all the partners in their old ratios. If there is Gain or Profit on revaluation, Revaluation Account is debited and all the partners' capital accounts is credited.

**(viii) The Journal entry to record Revaluation Profit is-**

Revaluation A/c Dr.  
    Old Partner's Capital A/c.  
(Being Revaluation Profit shred in old ratio)

In the case of Revaluation Loss, the All Partners Capital or Current A/c is Debited and Revaluation A/c is Credited. The Revised Values of Assets and Liabilities are shown in the new Balance Sheet, prepared after the retirement or death oi the partner.

**(ix) The Journal entry to record Revaluation Loss is-**

Old Partner's Capital A/c Dr.  
    To Revaluation A/c.  
(Being Revaluation loss shred in old ratio)

## **6) Adjustment for Accumulated Profit or Loss on retirement or death:**

सेवानिवृत्ति या मृत्यु पर संचित लाभ या हानि का समायोजन

Sometimes the books of a partnership firm may show some accumulated profits that are in the forms of credit balance.

### **1. The Accumulated Profits Includes:**

**a) Profit and Loss, and**

**b) General Reserve other Reserve:**

Such accumulated profits should be distributed amongst all the old partners including the retiring or deceased partner in their old profit-sharing ratios.

The General Reserve Account and or Profit and Loss Account should be Debited and all the Partners' Capital Accounts including the retiring or deceased partner should be credited in their old profit-sharing ratios. The Journal entries to record distribution of Accumulated Profits is:

Profit & Loss A/c.....Dr.  
 General Reserve A/c....Dr.  
 Other Reserve A/c.....Dr.  
     To Partners' Capital A/c

**Example 6.** A, B and C are partners in the ratio of 3:2:1 and their books show a Profit and Loss- Rs. 18,000 and General Reserve Rs. 15,000. When C retires or dies, show the division of P/L and Reserve among them.

**Solution.**

Profit & Loss A/c Dr. 18,000  
     To A's Capital A/c   9,000  
     To B's Capital A/c   6,000  
     To C's Capital A/c   3,000

(being Profit distributed among the all partners in old ratio)

General Reserve A/c Dr.15,000  
     To A's Capital A/c   7,500  
     To B's Capital A/c   5,000  
     To C's Capital A/c   2,500

(Being General Reserve shared among the all partners in old ratio)

If there are other reserve like Workmen Compensation Fund/Reserve or Investment Fluctuation Reserve, the excess of such reserve over any requirement (contingent liability) is also divided/written of among partner all partners including outgoing one in their old profit-sharing ratio.

**Example 7.** Workmen Compensation Fund in -15,000. Due to accident amount payable to workmen is only Rs.5,000. Assuming that A, B, C were equal partners, Distribute WCF among the partners.

**Solution.**

Workmen Com. Reserve A/c Dr.10,000  
     To A's Capital A/c   3,333.66  
     To B's Capital A/c   3,333.33  
     To C's Capital A/c   3,333.33

(being workmen compensation fund not required distributed in all partners)

Normally, we find accumulated profits in the Balance Sheet of a firm. It is very rare that accumulated losses are carried over to subsequent accounting periods in the cases of partnership firms. But we cannot rule out possibility of such a situation.

## 2. The Accumulated Loss Includes:

If there are any accumulated loss appearing in the books of a firm in the form of

- a) Profit & Loss (Debit Balance)
- b) Preliminary Expense or Preoperative Expense and
- c) Advertisement Suspense account

These accumulated losses are divided amongst all the partners including the retiring or deceased partner in their old profit-sharing ratios. It is written off by debiting their capital account and crediting the Profit & Loss, Preliminary Expense, or Advertisement Suspense accounts. The journal entry is:

**Partners' Capital/Current A/c Dr.**

**To Profit & Losses**

**To Preliminary Expenses**

**To Advertisement Suspense A/c**

(To write off accumulated loss among all partners in old PSR)

**Example 8.** X, Y and Z sharing Profit and losses in the ratio of 2:2:1 have Profit and Losses (Debit Bal.) Rs. 20,000 and Preliminary Expense of Rs. 10,000. C retires, show the adjustment of Profit /Loss (Debit Balance) and Preliminary Expense.

Solution.

X's Capital A/c Dr. 8,000

Y's Capital A/c Dr 8,000

Z's Capital A/c Dr. 4,000

To Profit and Loss-20,000

Being Losses divided among all partners in old PSR.

X's Capital A/c Dr. 4,000

Y's Capital A/c Dr 4,000

Z's Capital A/c Dr. 2,000

To Preliminary Expense -10,000

(Being Preliminary expenses written of among all partners in old ratio)

## 7) Payment to the Retiring Partner

When a partner retires from business, his claim against the firm is determined by preparing his capital account by taking into account all the adjustments in respect of his share of Goodwill, Accumulated Profits or Losses; Profit/loss on Revaluation of assets and liabilities

etc. Then, the settlement of the claim depends on the provisions of the partnership deed. If nothing is given in the problem to be solved in respect of settlement of claim, the amount of claim is usually transferred to the Retiring partner's Loan Account for which the following entry is passed

Retiring Partner's Capital A/c Dr.

To Retiring Partner's Loan A/c

(Being retiring partner's capital transferred into loan)

- A) **Payment of Full Amount Due:** If the full amount of claim is payable to the retiring partner on the date of retirement as per agreement, the amount is not be transferred to Loan Account but will be paid in cash or by cheque. The necessary entry for paying in full is:

Retiring Partner's Capital A/c Dr.

To Cash / Bank A/c

- B) **Payment of the Amount due in Equal Instalments Plus Interest on Unpaid Balance**  
Sometimes the partners decide to pay the outstanding amount of claim after initial payment in equal instalments plus interest on unpaid balance added thereto at regular interval. The necessary entry for paying in such way is:

#### **When Interest becomes due on unpaid balance**

- a) Interest Expense A/c .....Dr.

To Retiring Partner's Loan A/c

When instalment including interest is paid

- b) Retiring Partner's Loan A/c

To Cash /Bank A/c

### **Retirement Based Questions**

**Example 9.** A, B and C are three partners sharing profits in the ratio of 4:3:2 respectively. On Dec.31, 2019, C retires from the firm and his Capital is Rs.20,500 Cr. balance. On this date

- 1) The goodwill of the firm is valued at Rs 36,000.
- 2) There is Profit Loss Balance of Rs. 45,000.
- 3) There is revaluation of assets and liabilities as follows.
  - (a) The Land and Building has appreciated by Rs.15,000;
  - (b) Plant and Machinery has depreciated by 10,000,
  - (c) One Debtor A/c earlier written of informs that he will pay the firm Rs.5,000
  - (d) There is an unrecorded typewriter of Rs. 3,000 and
  - (e) An unrecorded liability for credit purchase of goods for Rs. 4,000.

The Partners have decided to pay C Rs.10,500 immediately and remaining balance is converted into his Loan. The Loan is to be paid in 3 equal quarterly instalments plus interest @10% per annum. The first loan instalment will be payable in March. 31, 2020.

Assuming that A and B agree to share future profits in the ratio of 1:1 respectively.

- 1) Show calculation of gaining ratio and C's share in goodwill
- 2) Pass necessary journal entries to record above transactions and to credit retiring partner with his share.
- 3) (a) Prepare Revaluation Account and (b) Retiring partner Capital account.

**Solution.**

**1. Calculation of Gaining Ratio**

Gaining Ratio (G.R) = New Ratio - Old Ratio

Share Gain by A =  $1/2 - 4/9 = 9/18 - 8/18 = 1/18$

Share Gain by B =  $1/2 - 3/9 = 9/18 - 6/18 = 3/18$

So, the Gaining ratio of A and B is **1:3**.

C's Share in Profit =  $45,000 \times 2/9 = \text{Rs. } 10,000$

C's Share in Goodwill =  $36,000 \times 2/9 = \text{Rs. } 8,000$

**2. Journal Entries to record the transactions**

Date	Particulars	Debit	Credit
Dec. 31	A's Capital A/c	2,000	
	B's Capital A/c	6,000	
	To C's Capital A/c		8,000
	Being Goodwill Adjusted in G.R.		
Dec. 31	Profit and Loss A/c	45,000	
	To A's Capital A/c		20,000
	To C's Capital A/c		13,000
	To C's Capital A/c		10,000
	Being Accumulated Profit written off		
Dec. 31	Revaluation Account Dr	14,000	
	To Plant & Machinery A/c		20,000
	To Creditor A/c		4,000
Dec. 31	Land & Building A/c	15,000	
	Debtor A/c	5,000	
	Typewriter A/c	3,000	
	To Revaluation A/c		23,000
	(Being increase in assets cr. to Rev a/c		
Dec. 31	Revaluation Profit A/c	9,000	
	To A's Capital A/c		4,000
	To B's Capital A/c		3,000
	To C's Capital A/c		2,000
	Being Rev. profit distributed in 4:3:2		
Dec. 31	C's Capital A/c	40,500	
	To Cash A/c		10,500
	To C's Loan A/c		30,000
	Being cash paid & Bal. Conv. in loan		

3. (a)

**Revaluation Account**

Particular	₹	Particulars	₹
To Plant and Machinery	10,000	By Land & Building	15,000
To Creditors	4,000	By Debtor	5,000
To Rev. Profit transferred to		By typewriter	3,000
A's Capital A/c	4,000		
B's Capital A/c	3,000		
C's Capital A/c	<u>2,000</u>		
	<b><u>23,000</u></b>		<b><u>23,000</u></b>

3. (b)

**C's Capital Account**

Particular	₹	Particulars	₹
To Cash	10,500	By Balance b/d	20,500
To C's Loan A/c	30,000	By Profit & Loss	10,000
		By Revaluation	2,000
		By A's Capital	2,000
		By B's Capital	6,000
	<b><u>40,500</u></b>		<b><u>40,500</u></b>

**Example 10.**

A, B and C are partners in a firm sharing P/L in the ratio of 2:3:1 respectively. C retires from the firm on Mar. 31, 2020, subject to the following conditions.

- Goodwill of the firm is valued and to be shown in the book at Rs. 24,000.
- Machinery to be depreciated by 20% and Furniture by 10%
- Stock Price has appreciated by 25% and building by 20% and
- Provision for doubtful debts to be raised to Rs. 2,500.

The Balance Sheet of the firm as on Mar. 31, 2020 was as follows.

Liabilities	₹	Assets	₹
Provision for Doubtful Debt	1,000	Land	30,000
Creditors	50,000	Building	70,000
Bank Loan	30,000	Machinery	80,000
General Reserve	32,000	Furniture	20,000
A's Capital	60,000	Debtors	36,000
B's Capital	80,000	Stock	50,000
C's Capital	<u>50,000</u>	Cash	<u>17,000</u>
	<b><u>3,03,000</u></b>		<b><u>3,03,000</u></b>

Prepare necessary accounts (Rev. A/c; Partners' Cap. A/c) a and Balance Sheet of the firm.

**Solution.**

**Revaluation A/c**

Particular	₹	Particulars	₹
To Machinery	16,000	By Building	14,000
To Furniture	2,000	By Stock	12,500
To Provision for D/D	1,500	By typewriter	3,000
To Rev. Profit transferred to			
A's Capital A/c	3,333		
B's Capital A/c	5,000		
C's Capital A/c	<u>1,667</u>		
	<b>29,500</b>		<b>29,500</b>

**Partners' Capital Account**

Particulars	A	B	C	Particulars	A	B	C
To C's Loan			61,000	By Bal. B/d	60,000	80,000	50,000
To Balance c/d	<u>82,000</u>	<u>1,13,000</u>		By Gen. Reserve	10,667	16,000	5,333
				By Goodwill	8,000	12,000	4,000
				By Revaluation	<u>3,333</u>	<u>5,000</u>	<u>1,667</u>
	<b>82,000</b>	<b>1,13,000</b>	<b>61,000</b>		<b>82,000</b>	<b>1,13,000</b>	<b>61,000</b>

**Balance Sheet as on Mar. 31,2020**

Liabilities	₹	Assets	₹
Provision for D/Debts 1,000		Goodwill	24,000
Add: Increase in DD- <u>1,500</u>	2,500	Land	30,000
Creditors	50,000	Building (70,000+14,000)	84,000
Bank Loan	30,000	Machinery (80,000 -16,000)	64,000
C's Loan	61,000	Typewriter	3,000
A's Capital	1,13,000	Furniture (20,000 - 2,000)	18,000
B's Capital	<u>82,000</u>	Debtors	36,000
		Stock (50,000 + 12,500)	62,500
		Cash	<u>17,000</u>
	<b>338,500</b>		<b>3,35,500</b>